Performance-Based Service Acquisition in Government

The Logic Model and a Seven Step Process for Developing Statements of Work and Statements of Objective to Manage Contracts for Results

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The Nation's Leader in Government Reform

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Transferring Knowledge to Transform Organizations

Through its national conferences on pressing issues, interactive executive training programs, best practice research and strategic consulting services, the Institute provides cutting-edge expertise in the design, implementation and evaluation of strategies to solve operational challenges and enhance organizational performance.

How The Institute Works

CONFERENCES

- *National Issue Summits to Explore Emerging Challenges and Share Best Practices*

TRAINING

Methodology-based, Hands-on Training Courses on Every Facet of Government and Non-Profit Management

RESEARCH

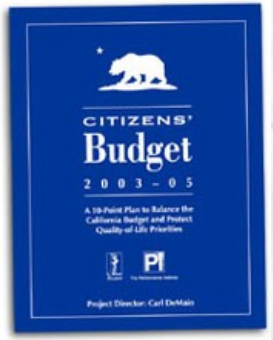
Best Practice Reports, White Papers, e-Newsletters and Performance Measurement Databases

DEMONSTRATION PROJECTS

- *Group or Agency-Specific Demonstration Projects on an As-Needed Basis (Emphasis on Capacity-Building and Facilitation)*

Extensive Research Base

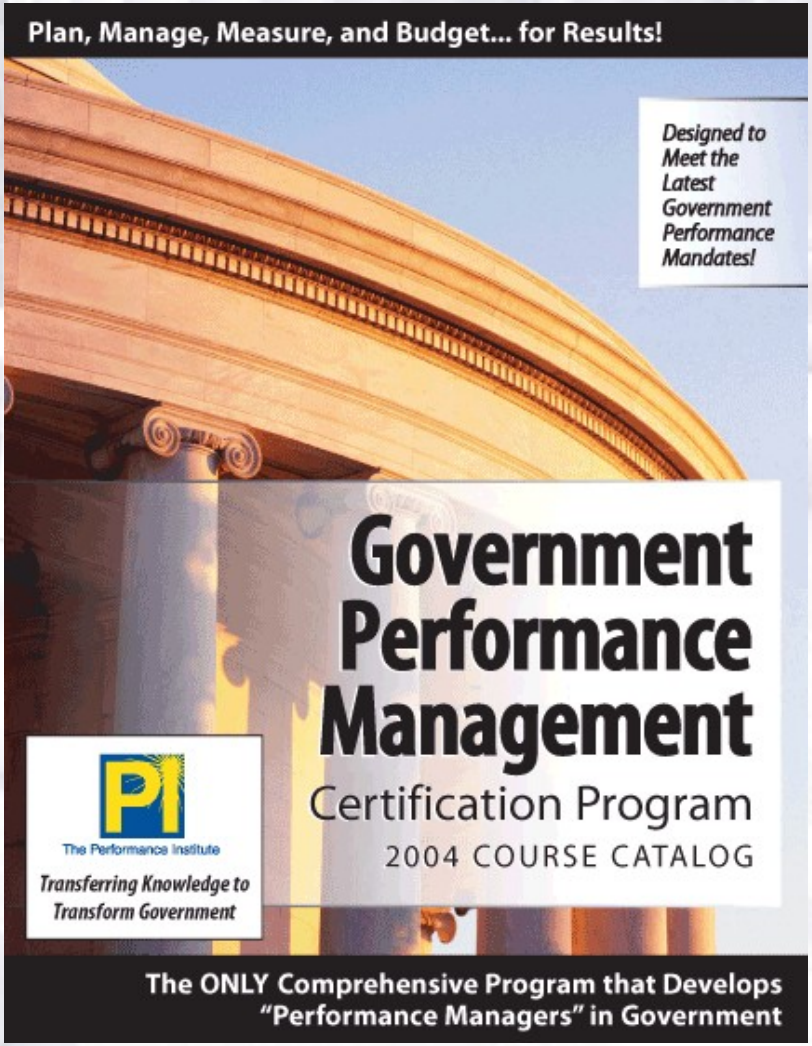
- “Citizens’ Budget” for State and Locals
- State Management Innovations Newsletter
- PMA Updates Newsletter
- In-Depth Research and Policy Studies
- Performance Measurement Database



Training and Certification Programs

- Performance Management
- Human Resources Management
- Administrative Management
- Competitive Sourcing
- Performance-based Contracting
- IT Budget Justification

Attend Public-Offered Courses or Bring a Customized Program In-House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  E-Mail: ***info@performanceweb.org***

- Conference Networking List
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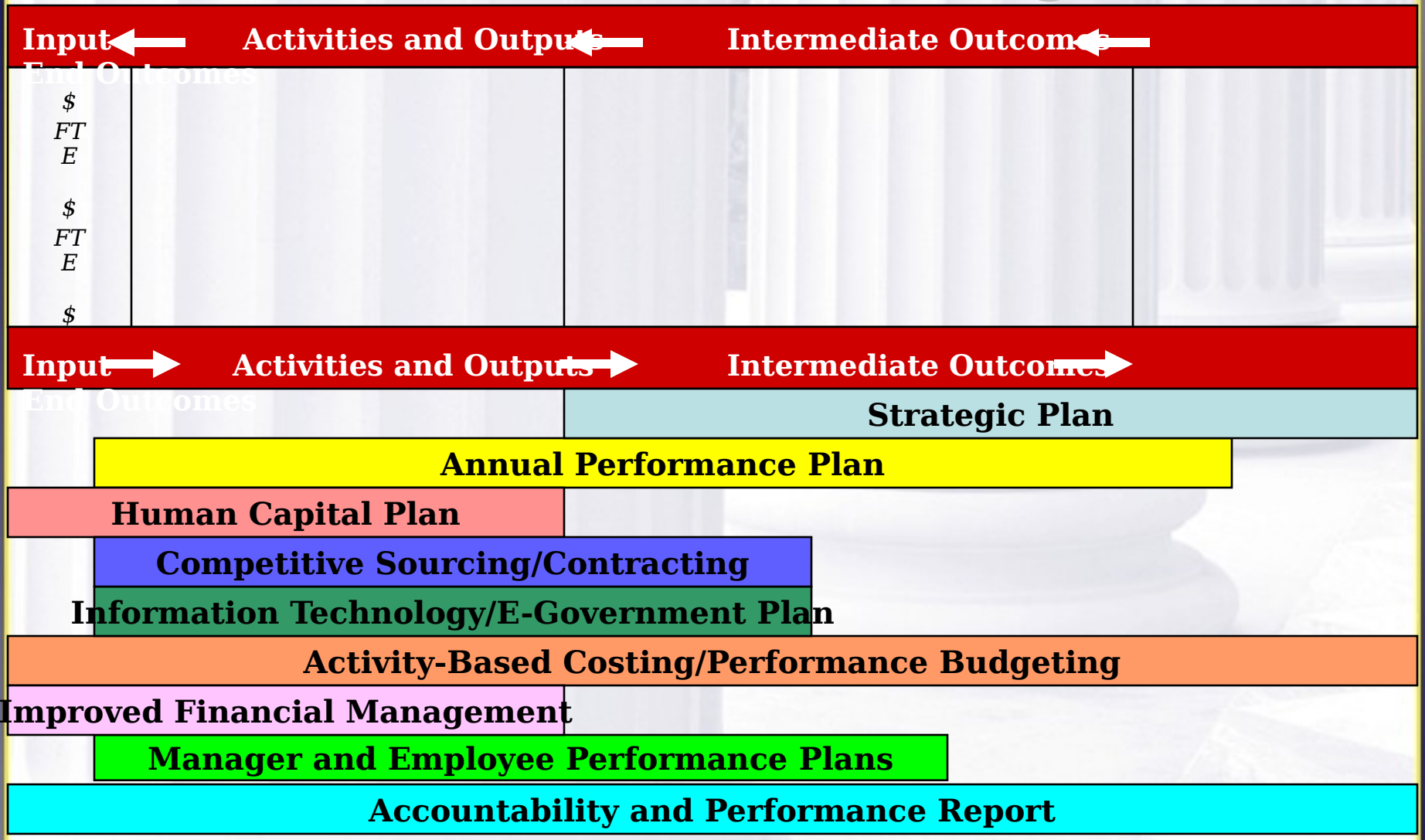
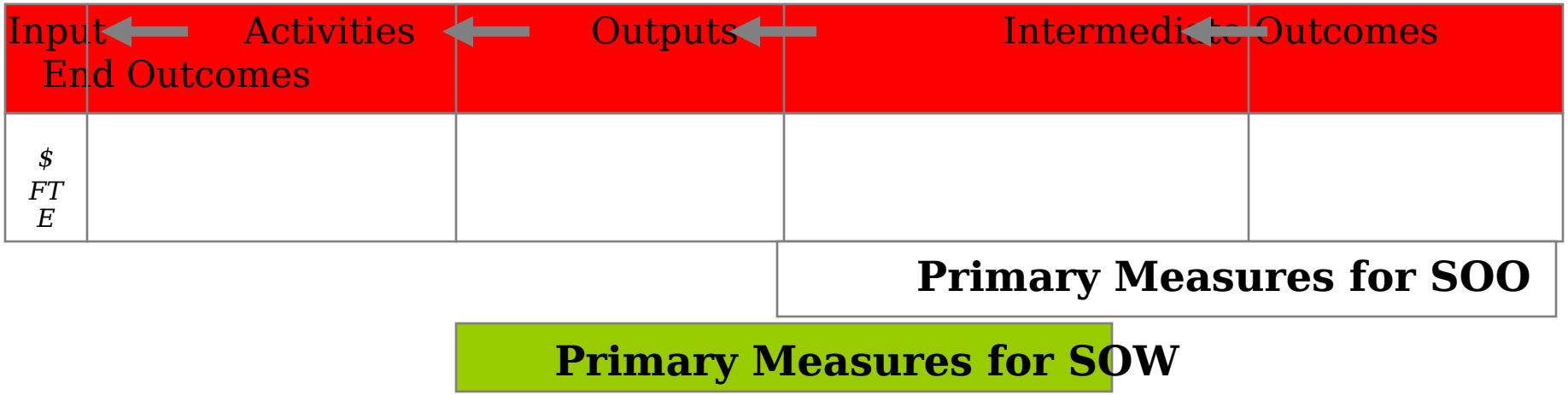
All 5 Pillars are Inter-Related. PERFORMANCE is the Common Thread.

Government Performance Logic Model



Building a Performance-Based Contract

Seven Steps Using the Logic Model



- **<u>Step 1</u>: Establish the Contracting Team**
- **<u>Step 2</u>: Identify Scope and Anticipated End Outcomes**
- **<u>Step 3</u>: Examine Private-Sector and Public Sector Solutions**
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- **<u>Step 7</u>: Monitor and Manage Performance**

What makes a contract "Performance-Based?"

- Soliciting bids on the basis of what RESULTS you want achieved rather than what ACTIVITIES you want conducted
- Defining clear performance expectations and measures (baseline vs. expected results)
- Clearly defines due dates and milestones
- Providing incentives for performance
- Granting flexibility in exchange for accountability for results
- Monitored to ensure performance is being achieved

Ask 3 Questions…

- What do I need?
- When do I need it?
- How do I know it’s good when I get it?

Performance

It’s NOT just about MEASURE

Performance

STRATEGIZE

COMMUNICATE

MOTIVATE

MANAGE

The “State of Practice” in Performance-Based Service Acquisition

Mandates, Case Studies, and Lessons Learned

Different Uses of Measures in Contracts and Grants

- Statement of Work/Request for Proposals
  - Measures that clarify what is expected of the contractor or grantee
- Basis for benchmark and comparison
  - Compare different contractors and grantees to share best practices and create a race-to-the-top
- Incentive Structure for Improved Results
  - Tying Payments to milestones (a.k.a. the logic model of your performance measures!)

PBC Lessons Learned: Pitfalls

- Misunderstanding the Definition of PBC
  - Not Making the Dramatic Shift in Contracting Approach it Requires
- Selecting Too Many Measures
- Not Giving Proper Flexibility
  - Just adding performance reporting mandates to the old SOW (More mandates, not less!)
- Resistance to Change (Is it Riskier for Government?)
- Using the Wrong Kinds of Measures
  - Too process and activity oriented vs. results-oriented
  - Measuring only the things you can count rather than things that count
- Cultural Resistance to Outcome-Focus
  - Giving into contractor desires to “control” everything they are measured on
- Risky Financial Incentives

New Legislation:
Services Acquisition Reform Act (SARA)

- Establishes New Acquisition Organizations
  - Federal Acquisition Institute (FAI) – distributes more $$ for acquisition training
  - Center for Excellence in Service Contracting – serves as repository for best practices in contracting for services
- Acquisition Workforce Recruitment Program
  - Also, bolster architectural and engineering acquisition workforce
- New Acquisition Executives
  - Senior Procurement Executives
  - Chief Acquisition Officer

The BIG SARA News

- Appointment of Chief Acquisition Officers (CAO)
  - Primary duty: acquisition management
  - Support head of executive agency in achieving mission
  - Monitor performance of acquisition activities and programs
  - Implement the increase in the use of full and open competition in the acquisition of property and services
  - Support increase of **Performance-Based Service Acquisition (PBSA)**

SARA Contract Rules

- Incentives for use of performance-based contracts
- Restrictions on time-and-materials or labor-hour contracts

Establishes requirement for increase in performance-based contracts

Office of Federal Procurement Policy 2003 Study "Performance-Based Service Acquisition: Contracting for the Future"

Changes to the FAR: New Definitions

- "performance work statement" (PWS)
  - Identifies technical, functional and performance characteristics of agencies requirement
- "statement of objective" (SOO)
  - Alternative to PWS – summary of key agency goals, outcomes… incorporated so that competitors may propose solutions, including a technical approach, performance standards, etc
- "statement of work" (SOW)
  - Defines the government's requirements in clear, concise language identifying work to be accomplished

Why Use Performance-Based Contracts?

- GAO: PBC is Agencies primary resource for correcting problems in service acquisition
- Also:
  - Reduced government involvement
  - Stronger solutions for unsatisfactory efforts
  - Competition (creates innovation and efficiency)
  - Possible lower contract prices
  - Improved customer and taxpayer satisfaction
  - Government actually gets what it pays for
  - Contractor required to perform to standards
    - If not, re-perform at contractor expense

MORE Benefits of PBSA

Note: Service Contracting = 60% of contract spending government wide

- OFPP 1998 Study of PBSA:
  - Reduced costs by 18%
  - Increased customer satisfaction scores by 15%
  - Contract audits decreased 93%

Without PBSA

- Government buys TIME not PERFORMANCE
- Lack of accountability and transparency – government may never know the reasonable or actual cost of work
- Contractor obligation to provide time or simply “best effort”
- No guarantee of performance or delivery
- Re-performance at government expense, not contractor’s

Success Stories

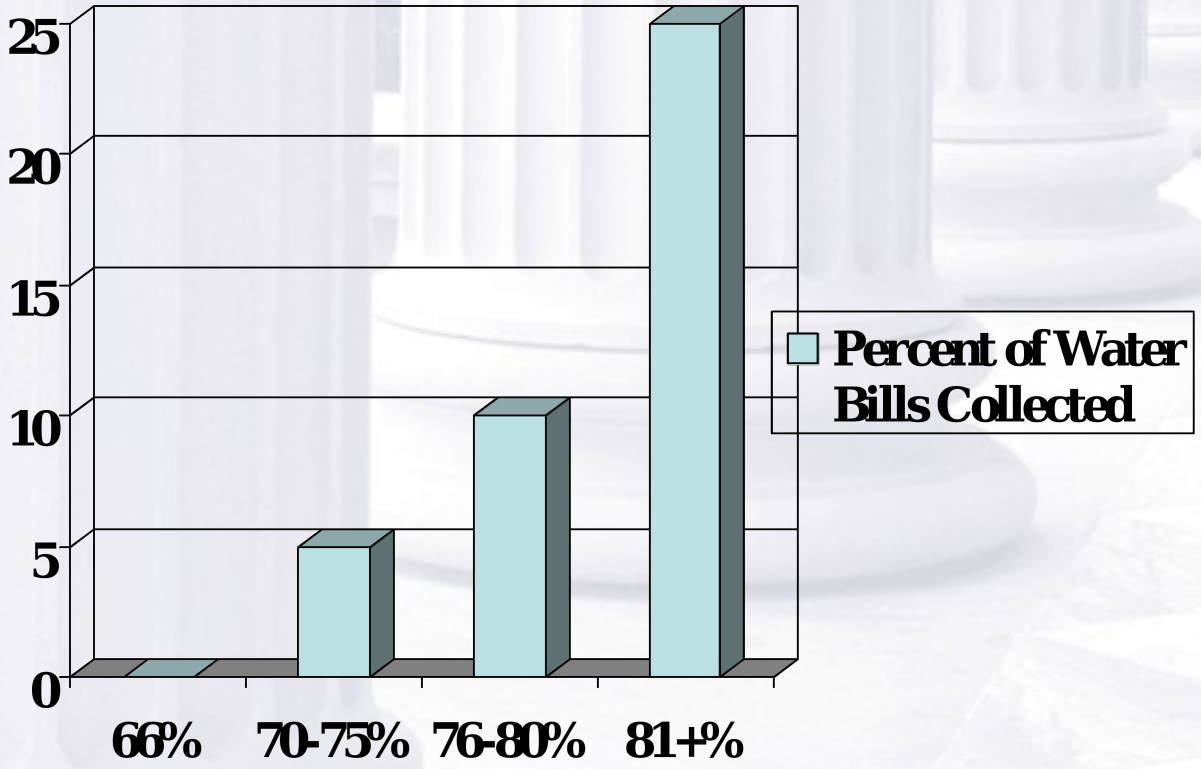
California Earthquake Repair
Jersey City Water System
Oklahoma Rehabilitative Services
North Carolina Adoption Program
Illinois Family Services Foster Care

California Earthquake Repair

- Financial Incentives:
  - $200k/day (bonus or penalty)
  - $13.8 million given in performance bonuses
- Savings
  - $74 million to local economy (end-outcome)
  - $12 million on contract administration
- Construction Time
  - 2 months vs. an estimated 9-24 months

Jersey City Water System

Contractor Incentive—Percent of additional collections above current rate of 66%



OK Community Rehabilitation Services Unit

Paying contractors at predefined milestones

- Determination of consumer needs (10% of bid)
- Vocational preparation completed (10% of bid)
- Job Placement (10% of bid)
- Four weeks of job retention (20% of bid)
- Job stabilization of 10-17 weeks of retention with minimal support contacts (20% of bid)
- Consumer rehabilitated: no support contacts 90 days after stabilization period (30% of bid)

Costs per placement declined by 51%, waiting lists for clients dropped by 53%, and the number of individuals who failed to get a job fell by 25%.

North Carolina Dept. of HHS Adoption Program

Paying contractors at predefined milestones

- Placement for the purpose of adoption (60 percent of average placement cost)
- Decree of adoption (20 percent of average placement cost)
- One year of intact placement after decree (20% of average placement cost)

Adoptions rose from

261 in 1994 to 364 in 1996, 660 in 1998, and 1338 in 2001.

Illinois Dept. of Children and Family Services Foster Care

Peg Costs to "Average" Performance

- Each caseworker is assigned 33 cases per year
- They are paid for 25 cases automatically
- If they place 8 children of the 33 assigned, they "break even"
- If they place less than 8 children of the 33, they "lose" in that they must service 26-33 cases and get paid for 25
- If they place MORE than 8 children, they "pocket" the difference

In the first year, the number of placements increased by 120%. By year two, the increase was 390%. Relative Home Care caseload declined by 41%, Traditional Foster Care doubled the number of placements, and the disruption rate remained the same.

Critical Success Factors for Designing a Performance-Based Contract

- Strategic and Program Logic for the Agency is clear (Strategic Plan -> Performance Plan)
- Clearly determine the scope of work and what performance measures will be used
- Canvass providers/contractors
  - What measures would they propose?
  - What incentives would they want? How?
  - How would they want to report performance data?
- Define your baseline and what level of performance is expected

Critical Success Factors for Designing a Performance-Based Contract, cont.

- Include provisions for flexibility and incentives..and make sure you can afford the incentives!
- THEN: Craft a performance-based statement of work and begin contractor selection
- Include mechanisms for measurement, reporting, monitoring and contractor feedback
- Define a system for revisions and reconciling deviations in expected performance
- Consider a transition period “hold harmless” clause

Critical Success Factors for Managing a Performance-Based Contract

- Monitor Performance with regular reporting
- Adjust! Adjust! Adjust!
  - Identify changes in external factors that will impact performance
  - Devise corrective action plans for deviations
  - Benchmark and compare! Analyze for next steps!
  - Revise performance targets to continue the push for gains
- Provide comparative performance data to contractors: create a “race to the top” culture
- Communicate and reward success!

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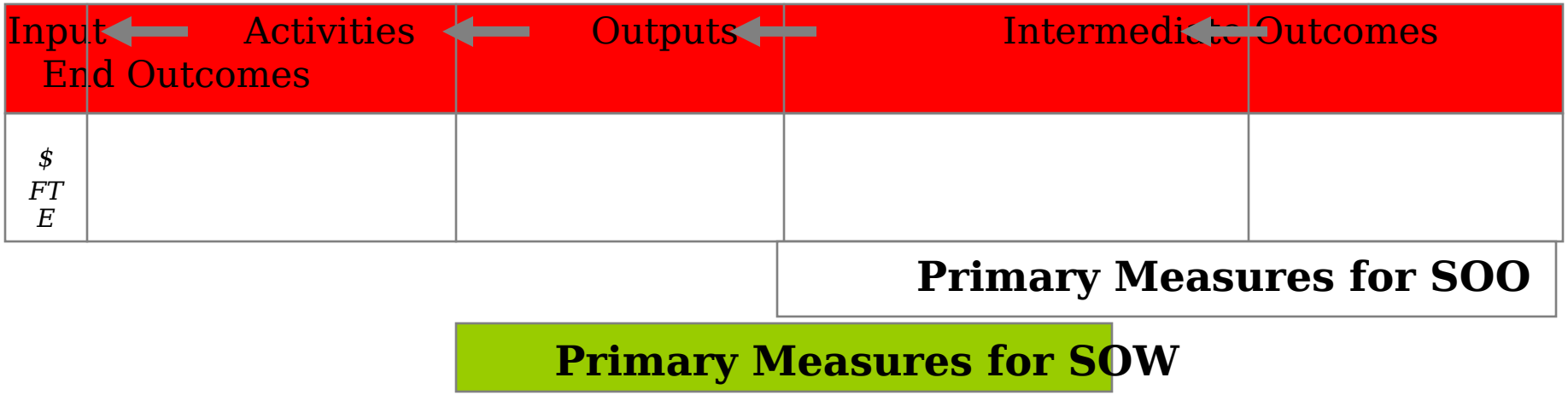

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Step 1: Selecting Your Team

- Only works with clear leadership commitment to PBC (accountability a must!) – including senior management
- Contract Officer
- Program Manager
- Program Partners/Users

INTEGRATED SOLUTIONS TEAM

- Identify and canvass stakeholders – tap expertise
  - Industry days, RFIs, etc.
- Define roles, responsibilities, and due dates
- Provide training and proper project support
- Think “outside the box” (Don’t assume existing activities are correct!)

WORK TOWARDS A COMMON GOAL: MISSION ACCOMPLISHMENT

Step 2: Identify Scope and Anticipated End Outcomes

- Align contract to agency mission and outcome goals
- Provides the context to all team members on what impact contract will have to the agency
- Key Question: Is the acquisition even needed?
- Baseline: What is the current level of performance?
- Context: What intermediate outcome issues must be confronted by the contractor?

WHAT PROBLEM NEEDS SOLVING?

Step 3: Examine Private and Public Sector Solutions

- Commercial Options: Identify commercial options available off-the-shelf or with modification
- Government Options: Streamlined vehicles, ISSAs, and coordinated procurement opportunities
- Competitive Sourcing: Is this part of a managed competition? (If so, follow PWS requirements)
- Market Research Tactics:
  - Public Information: Industry associations, trade groups, corporate profiles, etc.
  - Government Procurement: Vendors of other programs
  - Solicitation: Industry days, requests for information, etc

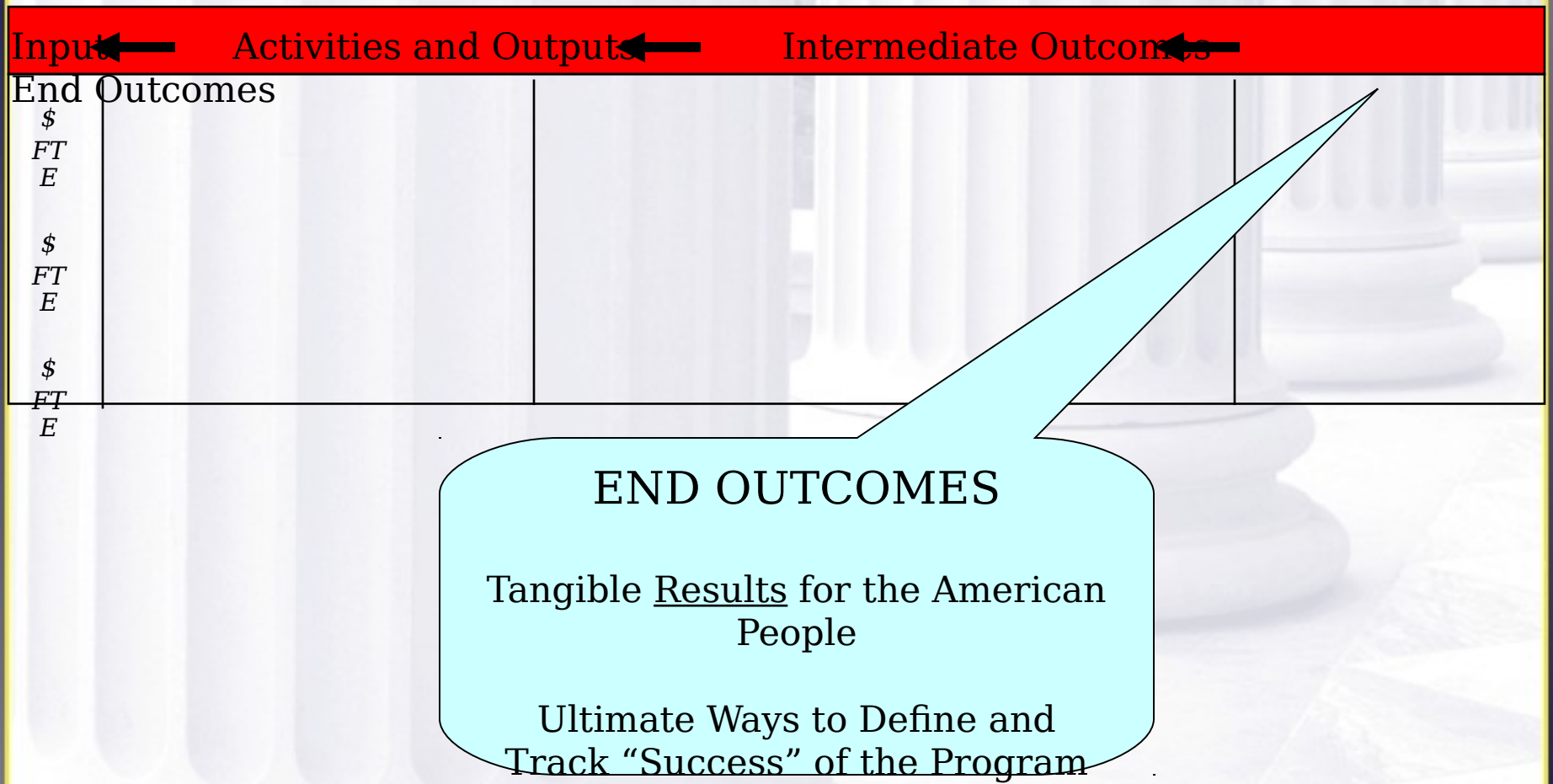
Step 4: Developing Performance Measurements

Using the Logic Model to Develop Performance Measurements

Performance Measure Criteria
“Think SMART”

- SPECIFIC
- MEASUREABLE
- ACCOUNTABLE
- RESULTS-ORIENTED (#1)
- TIME-BOUND

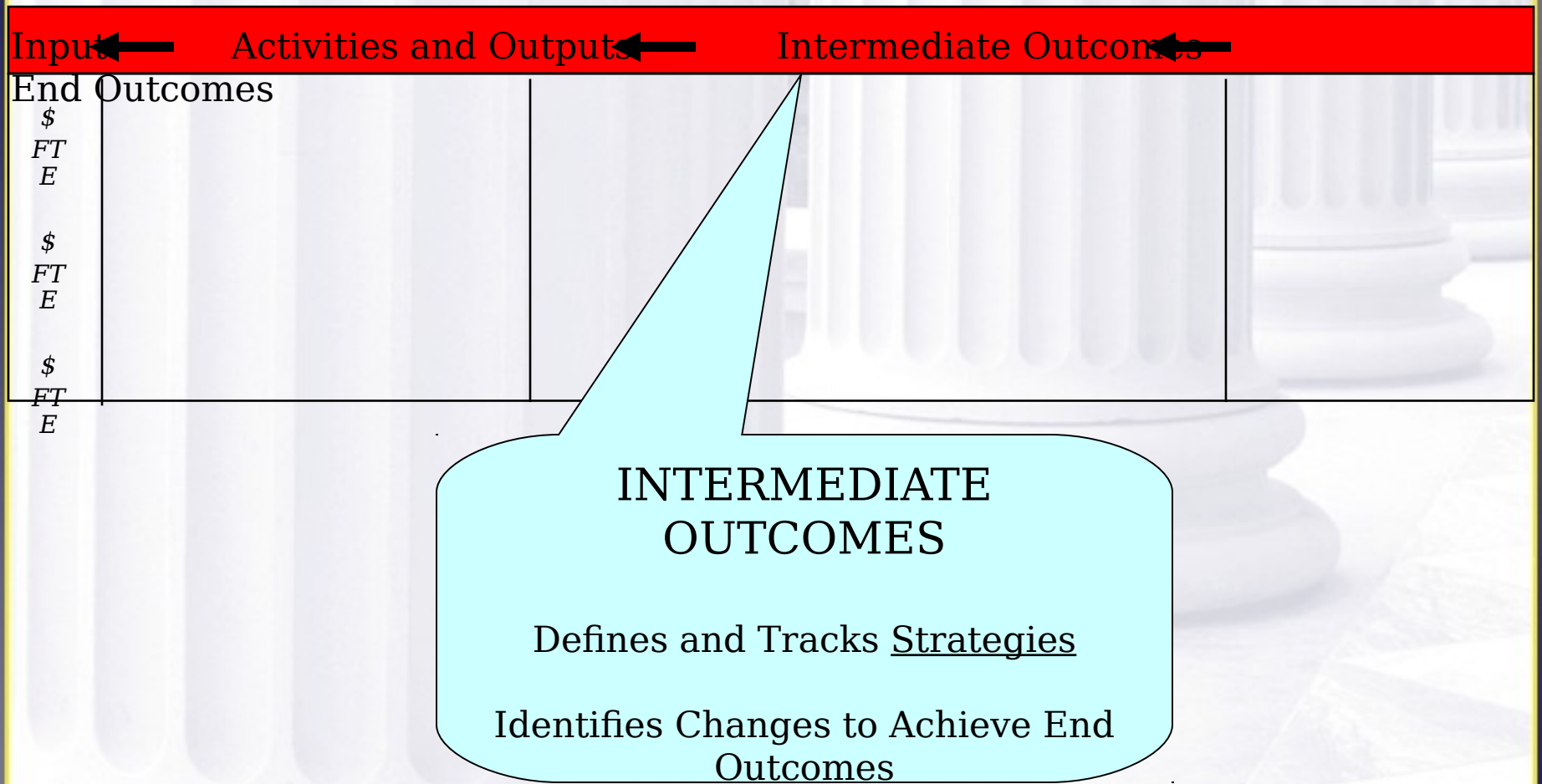
Performance Logic Model™



End Outcomes

- What is the “bottomline” of your program?
- How will you know you have been so successful that you can shut your program down?
- If you had to defend your program’s value/benefit before a grand jury, what 2-3 pieces of evidence would prove you were a success rather than a failure?
- What is the end benefit to the taxpayer or society from your program?

Performance Logic Model™

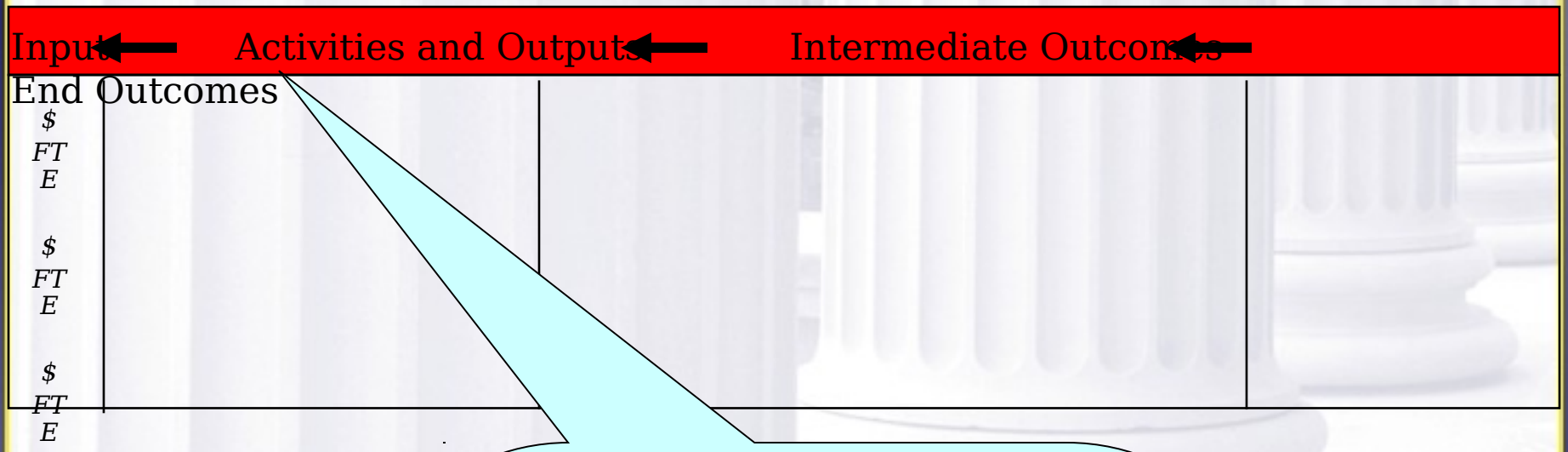


Intermediate Outcomes

Given the end outcomes you seek…

- What must change in the status quo to create the conditions necessary for goal attainment? Who are the targets of change and what must they do?
- What causes the outcomes NOT to be achieved?
- What are your strategies?
- What must you influence?
- Magic Wand: What are your wishes?

Performance Logic Model™



ACTIVITIES/OUTPUTS

Specific Actions Taken and Services/Products Offered by our Programs to Implement Strategies

Tracks our Workload and What we DO!

Program Outputs

For each intermediate outcome…

- What specific things can this agency do to cause that change to happen? …to influence that target to change?
- What products could you produce?
- What services could you provide?
- What is the actual workload that is to be handled?

(Note: Don't include administrative items inside your program. Think of what things actually leave the four walls of your program.)

Work Process Mapping

Input ← Activities	← Outputs	← Intermediate Outcomes	End Outcomes
$ *FT* *E*	**<u>Output 1</u>** -Activity A -Activity B -Activity C -Activity D **<u>Output 2</u>** -Activity E -Activity F -Activity G -Activity A -Activity B Etc. Etc. *For some activities, process measures can be devised.*	**<u>Business Line 1</u>** -Output 1 Workload Measure -Output 2 Workload Measure **<u>Business Line 2</u>** -Output 3 Workload Measure -Output 4 Workload Measure -Output 5 Workload Measure Etc. Etc.	**<u>Strategy 1</u>** -IO Performance Measure -IO Performance Measure **<u>Strategy 2</u>** -IO Performance Measure -IO Performance Measure -IO Performance Measure **<u>Strategy 3</u>** -IO Performance Measure Etc. Etc.	**<u>Outcome Goal</u>** Outcome Measure 1 Outcome Measure 2 Outcome Measure 3

Clarifying the Logic of the Program

Logic Model Template

The mission of the _____

(Program)

Is to produce/provide _____

(Products or Services)

To _____

(Target of Change)

So that they can _____

(Intermediate Outcome Change)

Resulting ultimately in… _____

(End Outcome Goal)

Separating Activities from Outputs

Activity Definition Template

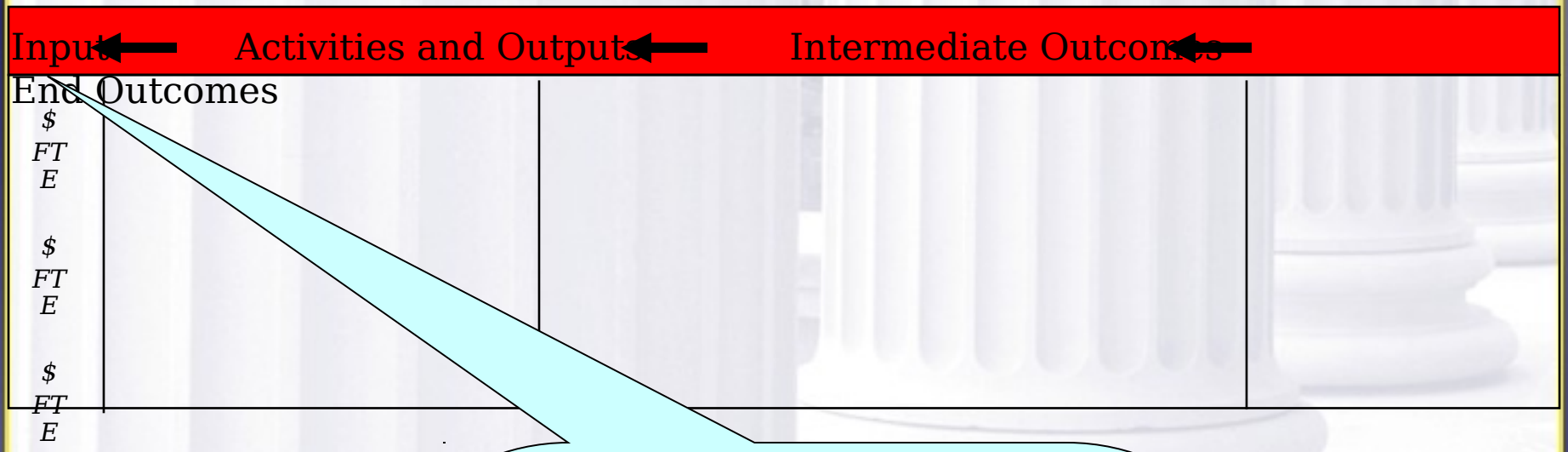
The purpose of _____
(Specific Program Work Activity)

Is to produce/provide _____
(Output)

To _____
(Target of Change)

So that they can _____
(Intermediate Outcome Change)

Performance Logic Model™



INPUTS

Financial Resources and Workforce Skills/Staff needed to Carryout Programs

Tracks Budget Request and Recruitment

Step 5: Develop SOW/SOO

- Statement of Work (SOW)
  - Outputs are clear and agency wants to purchase specific outputs
  - Performance incentives tied to cost, timeliness, quality and impact of outputs
  - Narrow and limiting to the contractor
- Statement of Objective (SOO)
  - Agency defines results to be achieved, and solicits a wide variety of technical solutions from contractors
  - Outputs are not pre-determined by the agency
  - Performance incentives tied to achievement of performance results (impact of outputs) and may include cost, timeliness, quality and impact of outputs associated with contractor's technical solution
  - Provides maximum flexibility to contractor on what work is to be done; provides room for innovation

Step 6: Select the Contractor

- Develop source selection criteria (traditional)
- Emphasize best-value approach
- Cast wide net for maximum competition
- Emphasize past performance based on your criteria
- Examine conflicts-of-interest
- Examine financial stability (particularly with shift away from fee-for-service)
- Don’t be afraid to re-compete if ideal solution not submitted!!

Step 7: Manage and Monitor Performance

- Management starts with the incentives structure
- Maintain team-based management approach to PBC after award
- Develop capacity for collecting and analyzing performance information on contracts
- Establish mechanisms for validity and verification checks on performance information
- Manage change: Kick-off meeting, transition period, and roll-out
- Benchmark and compare…continually push for improvements
- Exercise “corrective” mechanisms when performance is off track
- Report contractor's performance regularly

Structuring PBC Incentives

- Monetary Incentives: Tie total payment to performance
  - Fixed price-per-unit-service
  - Milestone-based (Favorite vehicle!)
  - Bonus-based on outcomes
  - Share-in-savings
- Non-monetary Incentives: Tie performance to flexibility in delivery of contract
  - Award-term contract extensions
  - Flexibility on service provision
- Incentives can be positive or negative
- Incentives can MIX use of items above

Milestone Payments

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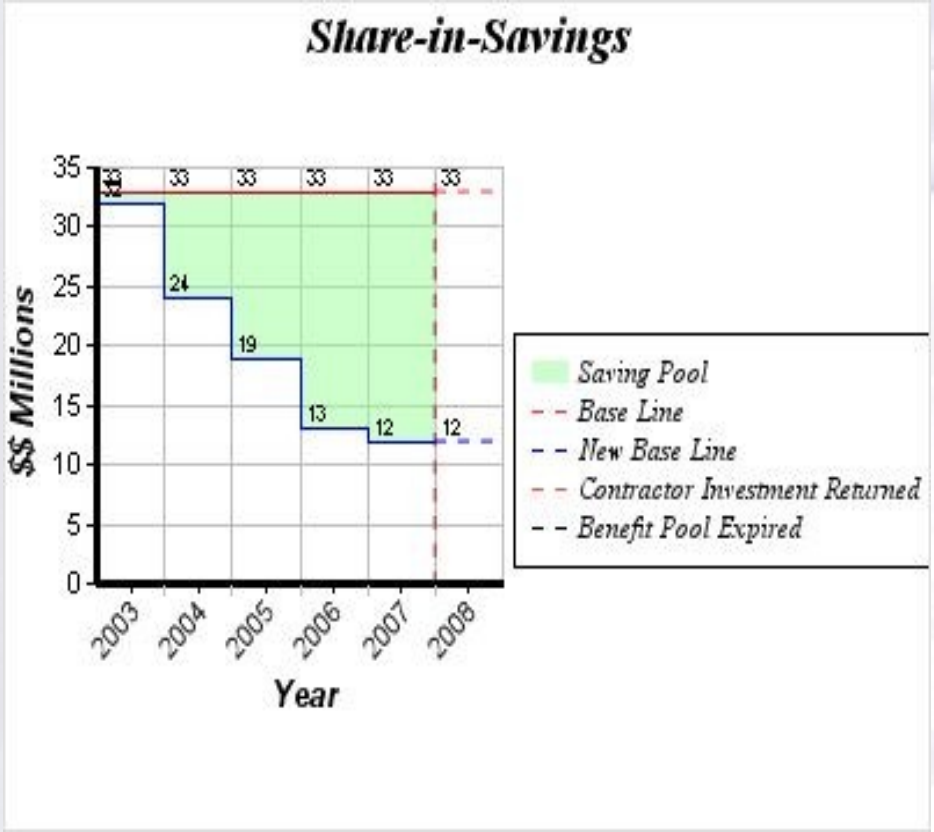
Costs per placement declined by 51%, waiting lists for clients dropped by 53%, and the number of individuals who failed to get a job fell by 25%.

Innovative Contracting Strategies: Share-in-Savings

- Special contracting and funding strategy:
  - Little or no “upfront” funding
  - Payment from the *savings* or *revenue*
  - INTERdependence with industry
- 90-99% of risk on contractor
- Payment made only *AFTER* substantial results are achieved
- Pay only for results—not just *effort*.



Share-in-Savings Contracts

- Paying contractors based on share of savings to government (%s, commissions)
- Context: Private Sector (see GAO-03-327) and Federal sector (minimal use: education student loans, energy savings, e-government)
- Error-rates, waste, ineligibility issues, disease management, etc. in public health/social service programs a KEY opportunity for share-in-savings
- Establishing baseline extremely important (work closely with finance function!)
- Endorsed by Congress in 2002 E-Gov Act
- Political hurdle: Appropriators resist in some cases